

REPORT TO CABINET

REPORT OF: Strategic Director – Corporate focus.

REPORT NO: SD30

DATE: 6th February 2011

TITLE:	Local Authority Mortgage Scheme	
KEY DECISION OR POLICY FRAMEWORK PROPOSAL:	Key decision	
PORTFOLIO HOLDER: NAME AND DESIGNATION:	Cllr Mike Taylor Assets and Resources Portfolio Holder	
CONTACT OFFICER:	Daren Turner d.turner@southkesteven.gov.uk 01476406310	
INITIAL IMPACT ASSESSMENT:	Carried out and Referred to in paragraph (7) below:	Full impact assessment Required:
Equality and Diversity		Yes
FREEDOM OF INFORMATION ACT:	This report is publicly available via the Your Council and Democracy link on the Council's website: www.southkesteven.gov.uk	
BACKGROUND PAPERS	Sector State Aid Paper Sector Accounting Principles Paper Sector Risk assessment Report to Cabinet - SD01 Local Authority Mortgage Scheme Report to Resources PDG HOF186 – Local Policy for Scheme Eligibility	

1. RECOMMENDATIONS

Cabinet recommend to Council that:

1. Council approve participation in the Local Authority Mortgage Scheme (LAMS), in partnership with Lloyds Bank plc up to a limit of £1m . The LAMS scheme is detailed for reference at Appendix A;
2. Council approve plans to extend the LAMS across other lenders as they enter the scheme up to a total value of £5m subject a full analysis of impact against priorities of the first £1m and subject to budget provision;
3. Council approve the policy for scheme eligibility as detailed in this report;
4. Council delegate to the Strategic Director (Corporate Services) the authority to execute the required legal documentation required to take part in the scheme.

2. PURPOSE OF THE REPORT

- 2.1 The purpose of this report is to update Cabinet on the proposed policy for scheme eligibility and confirm the recommendations to Council for approval to enable the Council to participate in the Local Authority Mortgage Scheme.

3. BACKGROUND

- 3.1 At its meeting in December 2011, Cabinet agreed in principle to make recommendations to Council to enter a Local Authority Mortgage Scheme and asked the Resources Policy Development Group to undertake initial development of a local policy for scheme eligibility for Council approval.

- 3.2 The Resources PDG considered the scheme eligibility at its meeting on the 19th January 2012 and recommended :

- ***The scheme should be open to first time buyers looking to purchase properties where the property is located within the boundary of South Kesteven district.***
- ***The scheme should be available for properties priced up to and including £125,000.***
- ***The scheme should only be available to first time buyers.***
- ***The scheme should run for a period as a pilot, with available funding of £1m.***
- ***The scheme should not be available for the purchase of new build properties.***
- ***For the pilot phase, SKDC should partner with Lloyds Bank plc, as the most experienced provider of LAMS. It was further recommended that cash should be deposited with the lender in order to maximise the return on the investment.***
- ***That there should not be a charge by the Council for administration of the scheme. The scheme provider would administer each application for scheme assistance***
- ***That the Council should not provide an advice service on mortgage selection or eligibility for the scheme. This will be made available by any scheme provider.***

- 3.3 In determining the criteria for scheme eligibility, the Resources PDG considered evidence of property sales within the district, the requirements of scheme operators, the current stamp duty levels and the criteria for national government schemes available. It was acknowledged that any Council funded scheme should compliment government schemes and not replicate them. The government's First Buy Scheme was available for new build properties only. The proposed criteria will benefit those first time buyers wishing to purchase non new built residential properties. It is understood this will assist the stimulation of the housing market. Scheme providers will provide the administration of the scheme. Applications will be made direct to the provider. It is not anticipated the Council will be involved in the administration of the scheme other than monitoring compliance with the scheme and take up. No charge is

proposed for entry to the scheme. Any advice required about the scheme will be given by the provider.

4. OTHER OPTIONS CONSIDERED

To enable the scheme to proceed, the Council must approve a local policy for scheme eligibility.

5. RESOURCE IMPLICATIONS

The resource implications are detailed in the details of the scheme at Appendix A and in the S.151 Officer's comments below.

6. RISK AND MITIGATION (INCLUDING HEALTH & SAFETY AND DATA QUALITY)

7. ISSUES ARISING FROM EQUALITY IMPACT ASSESSMENT

8. CRIME AND DISORDER IMPLICATIONS

None

9. COMMENTS OF FINANCIAL SERVICES

The scheme will commit, initially, £1m of the councils funds that would ordinarily be invested. Research tell us that at any one time the Council has in excess of £10m that is always invested in the markets and therefore not required for daily, weekly and monthly funding of services. This would reflect the level of reserves and balances the council carries. At present the Council is recouping 1.58% on longer term deposits, investment rates have seen dramatic falls since the onset of the economic downturn in 2008. The Lloyds LAM's scheme offers an enhanced rate of premium on top of their existing 5year commercial deposit rate. Clearly this is multiplied by fivefold if the indemnity increases to £5m. Risk will relate to the likelihood of default and sale at less than purchase value. History dictates that default levels run at less than 0.5% of mortgages that sales proceeds would need to drop significantly if the Council was to put at risk its initial deposit as the interest earned would potentially out way any losses in the unlikely event they would occur.

10. COMMENTS OF LEGAL AND DEMOCRATIC SERVICES

Local authorities have the power to provide the indemnity required by scheme providers in accordance with s.442 of the Housing Act 1985 (as amended). The indemnity in the scheme proposed requires the deposit of security with a bank. Individual indemnities will be required in respect of legality. It is essential that criteria for eligibility to the scheme are determined. Legality will depend on the policy created to adopt the scheme, how that policy will contribute to the Council's strategic objectives and priorities, the process for financing the

scheme, the eligibility criteria and, generally, how the policy will be implemented. Any policy approved at Council should be incorporated into the Council's Housing Strategy and Treasury Management Policy.

11. APPENDICES:

Appendix A - Local Authority Mortgage Scheme